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July 17, 2006

**VIA HAND-DELIVERY**

The Honorable Charles L.A. Terreni  
Chief Clerk/Administrator  
**Public Service Commission of South Carolina**  
101 Executive Center Drive  
Columbia, South Carolina 29210

RE: Application of United Utility Companies, Inc. for adjustment of rates and charges and modifications to certain terms and conditions for the provision of water and sewer service; Docket No. 2006-107-WS

Dear Mr. Terreni:

Enclosed for filing are the original and twenty-five (25) copies of each of the following documents in the above-referenced docket:

1. Direct Testimony of Bruce T. Haas
2. Direct Testimony of Lena Sunardio
3. Direct Testimony and supporting exhibits of Pauline M. Ahern
4. Direct Testimony and supporting exhibits of Converse A. Chellis, III

I would appreciate your acknowledging receipt of these documents by date-stamping the extra copies that are enclosed and returning them to me via my courier.

By copy of this letter, I am serving a copy of same on counsel for the Office of Regulatory Staff as well as the Intervenor subject to pending motions to dismiss or limit their intervention and enclose a certificate of service to that effect.

DATE: *7/17/06*  
BY: *ML Duke*

(Continued . . .)

The Honorable Charles L.A. Terreni  
July 17, 2006  
Page 2

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If you have any questions or if you need any additional information, please do not hesitate to contact us.

Sincerely,

**WILLOUGHBY & HOEFER, P.A.**

A handwritten signature in dark ink, appearing to read 'B. Mustian', with a long horizontal flourish extending to the right.

Benjamin P. Mustian

BPM/amw  
Enclosures

cc: Shannon B. Hudson, Esquire  
Nanette S. Edwards, Esquire  
Duke K. McCall, Jr., Esquire  
Jacqueline H. Patterson, Esquire  
Mr. Newton Horr

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**

**DOCKET NO. 2006-107-WS**

IN RE: )  
)  
Application of United Utility Companies, )  
Inc. for adjustment of rates and charges )  
and modifications to certain terms )  
and conditions for the provision of )  
water and sewer service. )  
\_\_\_\_\_ )

**CERTIFICATE OF SERVICE**

8  
JUN 17 PM 11:29  
F

This is to certify that I have caused to be served this day one (1) copy of the **Direct Testimony of Bruce T. Hass, III, the Direct Testimony of Lena Sunardio, the Direct Testimony and supporting exhibits of Pauline M. Ahern, and the Direct Testimony and supporting exhibits of Converse A. Chellis** by placing same in the care and custody of the United States Postal Service with first class postage affixed thereto and addressed as follows:

Shannon B. Hudson, Esquire  
Nanette S. Edwards, Esquire  
**Office of Regulatory Staff**  
Post Office Box 11263  
Columbia, South Carolina 29211

Duke K. McCall, Jr., Esquire  
**Leatherwood Walker, Todd & Mann, PC**  
Post Office Box 87  
Greenville, South Carolina 29602

Jacqueline H. Patterson, Esquire  
**Patterson & Coker, PA**  
1225 South Church Street  
Greenville, South Carolina 29605

Mr. Newton Horr  
131 Greybridge Road  
Pelzer, South Carolina 29669

Andrea M Wright  
Andrea M. Wright

Columbia, South Carolina  
This 17<sup>th</sup> day of July, 2006.

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**

**DOCKET NO. 2006-107-W/S**

IN RE: )  
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Application of United Utility Companies, )  
Inc. for adjustment of rates and charges )  
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\_\_\_\_\_ )

**PRE-FILED DIRECT TESTIMONY  
OF CONVERSE A. CHELLIS, III**

1   **Q.     PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

2   A.       My name is Converse A. Chellis, III. I am a Certified Public Accountant ("CPA")  
3           and a principal in and the Director of Litigation Services and Property Tax Services for  
4           Gamble Givens & Moody, LLC, a public accounting firm with offices in Charleston, Kiawah  
5           Island, Mt. Pleasant, and Summerville, South Carolina. My office is located at 133 East First  
6           North Street, Suite 9, Summerville, South Carolina 29483.

7   **Q.     PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

8   A.       In 1965, I graduated from The Citadel, The Military College of South Carolina with a  
9           bachelor's degree in business administration. I also have completed some graduate courses  
10          in accounting at the University of Georgia. In addition, I have had a minimum of forty (40)  
11          hours of continuing professional education ("CPE") each year since 1969, for a total of at  
12          least 1,440 total CPE hours.

1   **Q.   PLEASE DESCRIBE YOUR WORK HISTORY AND PROFESSIONAL**  
2   **EXPERIENCE PRIOR TO YOUR CURRENT POSITION.**

3   A.           Upon graduation from The Citadel in 1965, I served in the United States Air Force  
4           and was assigned to the Auditor General's staff. In 1969, I joined Touche Ross (now  
5           Deloitte and Touche) and was a senior accountant. I formed Chellis and Chellis in 1972, and  
6           have been a name partner and managing partner in several accounting firms until 1998. In  
7           1999, I merged my firm with Gamble Givens & Moody, where I am a principal and Director  
8           of Litigation Services.

9   **Q.   ARE YOU A MEMBER OF ANY PROFESSIONAL ASSOCIATIONS?**

10  A.           Yes. I am a member of the American Institute of Certified Public Accountants  
11           ("AICPA"). From 1983-1985, I served on AICPA's continuing education executive  
12           committee, and in 1985 I served on the AICPA council.

13           I am also a member of the South Carolina Association of Certified Public  
14           Accountants ("SCACPA"). I served as Vice-President of the SCACPA's Coastal Chapter in  
15           1977-78 and as President in 1978-79. In 1985 I served as the State President of the  
16           SCACPA, having previously served on the state level as Vice-President, Secretary/Treasurer,  
17           and Director. I have also been Chairman of the SCACPA's Committee on Continuing  
18           Professional Education, Chairman and trustee for the SCACPA's educational fund, and  
19           Chairman of the SCACPA's Committee on Cooperation with Governmental Agencies.

20           From 1986-1994, I was a member of the State Board of Accountancy, where I served  
21           as Secretary/Treasurer from 1988-1990 and Chairman from 1990-1993.

1           From 1982-1998, I was a member of Accounting Firms Associates, inc. I am also a  
2           past member of the American Society of Appraisers, and a current member of the American  
3           College of Forensic Examiners. In addition, I am a past associate in the Municipal Finance  
4           Officers Association, and I have held various offices in the National Association of  
5           Accountants. I am also active in the peer review process, which involves examination of the  
6           work of other accountants and accounting firms to assure that quality controls are being  
7           applied in conformance with the Quality Control Standards adopted by the AICPA.

8   **Q.   HAVE YOU EVER GIVEN ANY PRESENTATIONS TO OTHER ACCOUNTANTS**  
9   **OR AUDITORS?**

10  A.       Yes. I have been a speaker and an instructor for the accounting profession on a  
11       number of accounting topics, including generally accepted accounting principles ("GAAP")  
12       related topics.

13  **Q.   HAVE YOU EVER BEEN QUALIFIED AS AN EXPERT WITNESS IN A SOUTH**  
14  **CAROLINA COURT?**

15  A.       Yes. I have been qualified as an expert witness in both the circuit and family courts  
16       of South Carolina. I have also previously testified before this Commission offering opinions  
17       on regulatory accounting issues.

18  **Q.   WHY ARE YOU OFFERING TESTIMONY IN THIS CASE?**

19  A.       I have been asked by United Utility Companies, Inc., or UUC, to review its  
20       application to the Commission in this docket. I have also been asked to review two other  
21       applications filed by the Company: the first requesting authority to transfer its Gem Lakes  
22       sewer system in Aiken County to the City of Aiken in Docket No. 2006-130-S, and the

1 second petitioning the Commission to relinquish a portion of its service area in Oconee  
2 County in Docket No. 2006-122-S. My testimony will focus on the potential adjustments to  
3 UUC's rate base, expenses and revenues which would arise as a result of the Gem Lakes  
4 matter and the adjustments which are necessary as the result of the relinquishment of the  
5 Company's Oconee service territory.

6 **Q. YOU MENTION POTENTIAL ADJUSTMENTS RESULTING FROM THE GEM**  
7 **LAKES TRANSFER ONLY – WHY IS THAT?**

8 A. The reason for that is because the relinquishment of a portion of the Company's  
9 Oconee County service area does not involve any further steps. As explained in the  
10 Company's application in Docket No.2006-122-S, certain events and occurrences with the  
11 development of the real property in this portion of the Company's service area resulted in the  
12 Company providing only contract operating services and not utility service. Thus, the plant  
13 and facilities were not transferred to UUC and there is nothing to be conveyed by UUC in a  
14 closing. The docket matter involving Gem Lakes is different in that regard since it will  
15 involve a transfer of assets.

16 **Q. WHY DO YOU CHARACTERIZE THE ADJUSTMENTS ARISING FROM THE**  
17 **GEM LAKES TRANSFER AS “POTENTIAL”?**

18 A. Although it is my understanding that during its meeting on June 27, 2006, the  
19 Commission voted to approve the application to transfer the Gem Lakes sewer system to the  
20 City of Aiken and has issued a directive to that effect, no order has been issued by the  
21 Commission. The contract between the Company and the City of Aiken provides that the  
22 transaction close within thirty (30) days after the issuance of an order by the Commission



1 approving the transfer. Therefore, adjustments to the Company's plant in service, its rate  
2 base, and its revenue requirement to account for the sale of its Gem Lakes system will only  
3 be warranted at such time as the transfer actually occurs.

4 **Q. WHAT DOCUMENTS OR MATERIALS DID YOU CONSIDER IN CONNECTION**  
5 **WITH YOUR TESTIMONY?**

6 A. In addition to the filings in the dockets involving the Gem Lakes and Oconee County  
7 service areas, I have also reviewed the application for the proposed rates and the pre-filed  
8 direct testimony of the Company employee witness Sunardio in this matter. I have also  
9 reviewed information produced by the Company to the Office of Regulatory Staff, or ORS,  
10 pursuant to certain of its data requests in this matter.

11 **Q. BASED UPON YOUR REVIEW, WHAT ADJUSTMENTS WOULD NEED TO BE**  
12 **MADE TO THE COMPANY'S RATE BASE, EXPENSES AND REVENUES TO**  
13 **ACCOUNT FOR THE RELINQUISHMENT OF THE OCONEE COUNTY SERVICE**  
14 **TERRITORY AND THE ANTICIPATED TRANSFER OF THE GEM LAKES**  
15 **SEWER SYSTEM?**

16 A. Because the Company incurred certain expenses in connection with the organization  
17 of the Oconee County service area which were booked, including capitalized staff time and  
18 legal expense, these amounts would need to be removed from the Company's rate base and  
19 plant in service. Further, certain costs associated with this service area were inadvertently  
20 booked to Plant in Service – Lift Station and Plant in Service – Sewer Mains and should be  
21 removed. Additionally, service and miscellaneous revenues should also be reduced to reflect  
22 the elimination of the contract operations fee previously paid to the Company. In connection

1 with the Gem Lakes transfer, assuming it closes, the facilities serving this area should be  
2 removed from UUC's plant in service, the rate base adjusted, and the Company's revenue  
3 requirement reduced accordingly. I have attached to my testimony as Exhibit "A" a schedule  
4 summarizing these adjustments which are consistent with the information provided by the  
5 Company to ORS in its responses to data requests.

6 **Q. WOULD YOU PLEASE DESCRIBE THE SPECIFIC ACCOUNTING**  
7 **ADJUSTMENTS WHICH SUPPORT YOUR EXHIBIT "A"?**

8 **A.** Yes. Again, as with the summary effect of the transfer of the Gem Lakes system that  
9 is depicted in my Exhibit "A", specific adjustments I describe assume that that transfer does  
10 close. Subject to that assumption, sewer plant in service should be reduced by (\$657,181) to  
11 reflect the removal of the organizational costs attributable to the Oconee County service area  
12 and the wastewater treatment collection and distribution system and the associated treatment  
13 facilities in the Gem Lakes Subdivision. Additionally, although UUC only provided sewer  
14 service to Gem Lakes, there are certain assets which are allocated to both water and sewer  
15 accounts. Therefore, certain small adjustments in the amount of (\$47) would need to be  
16 made to the water Plant in Service as well. This would result in a total adjustment to Gross  
17 Plant in Service of (\$657,229) resulting in Total Gross Plant in Service of \$4,656,951.

18 In addition to the adjustments to Plant in Service, Accumulated Depreciation would  
19 also need to be modified. Certain plant would need to be removed from service which  
20 would require adjusting accumulated depreciation \$140,665 for a total accumulated  
21 depreciation amount of (\$441,751). Similarly, Construction Work in Process would need to  
22 be decreased by (\$14,475) for a resulting total amount of CWIP of \$152,647. Current Assets

1 would also need to be decreased by (\$10,430) for a total amount of \$140,641. By removing  
2 these assets, the Total Assets for UUC would be \$4,524,603.

3  
4 **Q. WHAT ADJUSTMENTS WOULD NEED TO BE MADE WITH RESPECT TO THE**  
5 **LIABILITIES AND OTHER CREDITS?**

6 **A.** Total Capital Stock and Retained Earnings would need to be adjusted by \$63,558 for  
7 a total amount of (\$316,778). Current and Accrued liabilities should be decreased  
8 (\$467,694) for a total amount of \$2,017,725. Removal of the systems necessitates a decrease  
9 in sewer Contributions in Aid of Construction for a total CIAC amount of \$2,565,579.  
10 Finally, Accumulated Deferred Income Taxes should be decreased for a total amount of  
11 \$258,077. After making these adjustments, the total liabilities and other credits for UUC is  
12 \$4,524,603.

13  
14 **Q. COULD YOU EXPLAIN THE ADJUSTMENTS RELATED TO THE COMPANY'S**  
15 **REVENUES AND EXPENSES WHICH WOULD BE NEEDED?**

16 **A.** Yes. Removal of assets causes the Company to experience both decreased revenues  
17 and expenses for ratemaking purposes. Removing the Gem Lakes revenue and  
18 miscellaneous revenue associated with the Oconee County service area operations and  
19 uncollectible accounts results in an adjustment to per books Operating Revenues of  
20 (\$161,526) for total per books revenues of \$741,415. Similarly, since the plant would no  
21 longer be owned or operated by UUC, the per books maintenance expenses would be reduced  
22 by (\$64,497) for total per book maintenance expenses of \$439,575. Per books general

1 expenses, which include salaries, office expenses, insurance, etc., would also be reduced by  
2 (\$46,013) for total per book general expenses of \$148,648. Accounting items such as  
3 depreciation and taxes would be adjusted by \$1,172 which results in a per books net  
4 operating income of (\$14,392). After adjusting expenses for Interest During Construction and  
5 Interest on Debt, the per books Net Income would become (\$133,647).

6 **Q. HOW WOULD THIS AFFECT THE REVENUES AND EXPENSES UNDER THE**  
7 **PROPOSED RATES?**

8 **A.** Similar adjustments would be made to the pro forma proposed revenues and  
9 expenses. Revenues would be decreased by (\$125,214) for Total Operating Revenues of  
10 \$1,001,490. Total Maintenance Expenses would become \$451,784 and total General  
11 Expenses would equal \$226,334. The proposed rates would then result in total expenses for  
12 accounting items such as Depreciation and Taxes of \$174,689 resulting in Total Operating  
13 Expenses of \$852,807 and Net Operating Income of \$148,683. After adjusting for interest,  
14 UUC would have Net Income under the pro forma proposed rates of \$82,613.

15  
16 **Q. WOULD REMOVING THE ORGANIZATIONAL COST ASSOCIATED WITH THE**  
17 **OCONEE COUNTY SERVICE AREA AND REMOVING GEM LAKES FROM**  
18 **UUC'S BOOKS HAVE ANY OTHER NOTABLE AFFECTS?**

19 **A.** Yes, it would. The Company's per books return on rate base would be -1.00%.

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 **A.** Yes it does.

**United Utility Companies**  
**Test Year Ended 9/30/05**

Exhibit No. \_\_\_\_\_.  
CAC-1

		<b>Keowee</b>		
		<b>Gem Lakes</b>	<b>Townhomes</b>	<b>Total</b>
Per Books	Service Revenues	153,607.00	6,224.00	159,831.00
	Miscellaneous Revenues	1,648.00	15.00	1,663.00
	Uncollectible	32.00	-	32.00
		<hr/>		
	Total Revenues	155,287.00	6,239.00	161,526.00
	Proposed Increase in Revenues	32,914.00	469.00	33,383.00
Per Books	Gross Plant in Service	653,739.00	3,490.00	657,229.00
	Organization	5,978.73	1,239.50	7,218.23
	Lift Station	1,150.18	1,691.25	2,841.43
	Sewer Mains	112,892.11	559.00	113,451.11
	L&L Rights	1,653.00		1,653.00
	Bldg and Structures	3,046.56		3,046.56
	Spray Irrig Facilities	307,508.22		307,508.22
	Sewage Service Lines	35,879.69		35,879.69
	Force or Vacuum Mains	750.51		750.51
	Manholes	3,091.29		3,091.29
	Sewer Lagoons	6,561.07		6,561.07
	Sewage Treatment Plant	174,184.55		174,184.55
	Tools	306.18		306.18
	Laboratory Equipment	736.99		736.99
		<hr/>		
	Total Gross Plant in Service	653,739.08	3,489.75	657,228.83
Per Books	Accumulated Depreciation	140,624.00	41.00	140,665.00
Per Books	Total Rate Base	368,224.00	3,449.00	371,673.00

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**

**DOCKET NO. 2006-107-W/S**

IN RE:

Application of United Utility Companies,  
Inc. for adjustment of rates and charges  
and modifications to certain terms  
and conditions for the provision of  
water and sewer service.

**DIRECT TESTIMONY**  
**OF**  
**LENA SUNARDIO**

1

2 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS**  
3 **FOR THE RECORD.**

4 **A.** My name is Lena Sunardio. I am employed as a Senior Regulatory Accountant at  
5 Utilities, Inc., 2335 Sanders Road, Northbrook, Illinois 60062.

6

7 **Q. WHAT IS YOUR PROFESSIONAL BACKGROUND?**

8 **A.** I have been employed by Utilities, Inc. since January of 2006. Since that time I  
9 have been involved in several phases of rate-making in many regulatory jurisdictions. I  
10 graduated from University of Illinois at Chicago in 2000, and I'm a Certified Public  
11 Accountant. I had four years of public accounting/auditing experience prior to joining  
12 Utilities, Inc. I am a member of the Illinois CPA Society. I have successfully completed  
13 the utility regulation seminar sponsored by NARUC.

14

15

1   **Q.     PLEASE EXPLAIN YOUR JOB RESPONSIBILITIES AT UTILITIES, INC.**

2   **A.**           My responsibilities include: financial analysis of individual subsidiaries of  
3           Utilities, Inc., preparation of rate applications, facilitation of regulatory audits, and the  
4           submission of testimony and exhibits to support rate applications.

5

6   **Q.     PLEASE DESCRIBE UNITED UTILITY COMPANIES, INC.**

7   **A.**           United Utility Companies, Inc. (“UUC” or the “Company”) is a wholly owned  
8           subsidiary of Utilities, Inc. (“UT”). UUC was incorporated on April 18, 1983, for the  
9           purpose of owning and operating water and wastewater utility systems. Since that time,  
10          UUC has grown to serve over 90 water and 1,800 wastewater customers. These  
11          customers are located in seven counties throughout South Carolina. UUC maintains an  
12          operations and customer service office in West Columbia, SC. Customer payments,  
13          meter readings and service orders are processed from this office. Administrative  
14          functions such as regulatory services, management, accounting, human resources, and  
15          data processing are performed from the Utilities, Inc., office in Northbrook, Illinois.

16

17   **Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18   **A.**           The purpose of my testimony is to sponsor the Application of UUC  
19           (“Application”) for an increase in its rates for water and sewer services provided to its  
20           service area in South Carolina, which was filed with the Commission on April 10, 2006.

21

1    **Q.    THE APPLICATION ALSO SEEKS APPROVAL FOR A MODIFICATION FOR**  
2       **CERTAIN TERMS AND CONDITIONS OF PROVIDING THESE SERVICES,**  
3       **DOES IT NOT?**

4    **A.**           Yes, but Mr. Haas will present testimony supporting the Company's request in  
5       that regard.

6

7    **Q.    WHY IS UUC REQUESTING RATE RELIEF AT THIS TIME?**

8    **A.**           It has been over five years since the Company last applied for rate relief. As  
9       reflected in its application for the test year ended September 30, 2005, UUC's return on  
10      its rate base was 0.60%. This is well below the 9.31% return on rate base previously  
11      authorized by the Commission. The Company's current return on rate base is also well  
12      below its cost of capital which, as the Commission will hear from the Company's witness  
13      Mrs. Ahern, is 8.53%-8.76%. In addition, as time passes, the need for rate relief will  
14      increase. Without satisfactory rate relief, UUC's ability to continue to provide safe,  
15      reliable and efficient water and sewer utility services to its customers will be placed in  
16      jeopardy, and UUC will be unable to meet its financial obligations. In addition, capital  
17      will become more costly.

18

19   **Q.    PLEASE DESCRIBE THE COMPANY'S APPLICATION.**

20   **A.**           In addition to the proposed rate schedule, the Application contains financial  
21      statements consisting of a balance sheet, income statements, rate base and rate of return  
22      calculation, a test year revenue calculation under current rates, a revenue calculation



under proposed rates, and a schedule of current and projected customers. Also included are the most recent approval letters from DHEC and a sample customer bill form.

**Q. WOULD YOU PLEASE SUMMARIZE THE PROPOSED RATE CHANGES IN THE COMPANY'S WATER RATE SCHEDULE?**

A. Schedule E included in Exhibit B of the Application contains the Company's Schedule of Proposed Water Rates and Charges. The Company has proposed to increase the water customers Residential Base Facility Charge and the Commercial Base Facility Charge from the current charge of \$11.50 per month to \$23.08 per month and the Commodity Charge from \$4.50 per 1,000 gallons to \$5.97 per 1,000 gallons.

**Q. PLEASE SUMMARIZE THE PROPOSED RATE CHANGES TO THE COMPANY'S SEWER RATE SCHEDULE.**

A. Exhibit A of the Application also contains the Company's Schedule of Proposed Sewer Rates and Charges. In this proceeding, the Company has proposed to increase the full-service sewer charge for all sewer customers, the increases are as follows:

<u>Type</u>	<u>Present</u>	<u>Proposed</u>
Residential	\$48.24	\$65.72
Commercial	\$48.24	\$65.72
Mobile Home	\$35.58	\$48.47

1 UUC has proposed to increase the monthly charge for collection-only customers  
2 from \$24.66 to \$33.60 and from \$23.50 to \$24.66. UUC has not proposed to increase the  
3 Notification, Account Set-up and Reconnection Charges.  
4

5 **Q. MRS. SUNARDIO, WERE THE FINANCIAL STATEMENTS ATTACHED TO**  
6 **THE APPLICATION PREPARED BY YOU OR UNDER YOUR DIRECTION?**

7 **A.** Yes. They are attached as Exhibit B to the application as originally filed.  
8

9 **Q. WHAT IS CONTAINED IN THE FINANCIAL STATEMENTS?**

10 **A.** The Financial Statements and related schedules submitted with the application  
11 consist of a Balance Sheet, Income Statement, Rate Base and Rate of Return,  
12 Consumption Analysis under Present rates and Consumption Analysis under Proposed  
13 rates. The test year chosen is the year ended September 30, 2005 which was the most  
14 recent twelve-month period available at the time of the Company's filing.  
15

16 Schedule A is the Balance Sheet as of September 30, 2005. At the end of the test  
17 year, UUC had assets of approximately \$5.1 million. This includes over \$4.7 million of  
18 Net Utility Plant.  
19

20 Schedule B is the Income Statement for the test year and is comprised of four  
21 pages. Page 1 is the Income Statement for Combined Operations; page 2 is the Income  
22 Statement for Water Operations; page 3 is the Income Statement for Sewer Operations,

1 and; page 4 is a list of brief explanations for the pro forma adjustments made to the  
2 various income statement accounts. As I mentioned before, the Company's per book  
3 operating expenses are nearly \$500,000 more than the operating expenses allowed in the  
4 last rate case. With the pro forma adjustments proposed in Schedule B and in my  
5 testimony, the Company has experienced an increase in operating expenses of over  
6 \$530,000 since its last rate case. The increase in expenses contributes to the Company's  
7 need for rate relief.

8  
9 Schedule C is the Rate Base and Rate of Return Statement and is comprised of six  
10 pages. Page 1 is the Rate Base and Rate of Return Statement for Combined Operations;  
11 page 2 is the Rate Base and Rate of Return Statement for Water Operations, page 3 is the  
12 Rate Base and Rate of Return Statement for Sewer Operations, page 4 is the Plant by  
13 Categories-Water, page 5 Plant by Categories-Sewer, and page 6 is Explanation of  
14 Adjustments to Rate Base and Rate of Return.

15  
16 Schedule D is the Consumption Analysis under Present rates, and Schedule E is  
17 the calculation of revenues under Proposed Rates.

18  
19 **Q. WOULD YOU PLEASE PROVIDE A BRIEF EXPLANATION OF THE PRO**  
20 **FORMA ADJUSTMENTS INCLUDED ON SCHEDULE B?**

21 **A.** Operator and Office salaries were annualized as of December 31, 2005 and  
22 adjusted for a 4% raise increase. Pension & Other Benefits were annualized to match end

1 of test year salaries and wages. Regulatory Commission Expense was adjusted to reflect  
2 the cost of this proceeding amortized over a three-year period. Depreciation Expense was  
3 adjusted to reflect the annualized depreciation expense on end of test year plant as well as  
4 pro forma additions to plant. Amortization of CIAC was adjusted to reflect the  
5 annualized amortization of CIAC. Taxes other than income have been adjusted for  
6 changes in the payroll taxes based on current tax rates and annualized salary figures as  
7 discussed above. In addition, the Regulatory Commission Tax was adjusted to an  
8 estimated increase in the assessment by the PSC. Gross Receipts Taxes were annualized  
9 on revenues under present and proposed rates. Finally, an adjustment is made for a  
10 property tax accrual that was double-counted. State and Federal Income taxes were  
11 calculated at the current rates of 5% and 35%, respectively. AFUDC is eliminated for  
12 ratemaking purposes. Interest Expense was synchronized using the capital structure of the  
13 consolidated Utilities, Inc. group of companies, consisting of a debt / equity ratio of  
14 59.10% / 40.90% and an embedded cost of debt of 6.42%.

15  
16 **Q. WHAT IS CONTAINED IN SCHEDULE C?**

17 **A.** Schedule C is the Rate Base and Rate of Return Statement. As of September 30,  
18 2005, UUC has a rate base of \$1,815,262. This compares to a rate base of approximately  
19 \$990,000 at the end of the test year in the last rate case as approved by the Commission.  
20 This increased investment has contributed to the need for rate relief. As indicated on  
21 page 1 of Schedule C, UUC earned a 0.60% return on rate base during the test year. This  
22 is well below the Company's cost of capital.

1

2 **Q. WHAT PRO FORMA ADJUSTMENTS ARE REFLECTED ON SCHEDULE C?**

3 **A.** There are several. Working capital has previously been used in UUC rate cases  
4 and is again used in this proceeding. Working capital is calculated at 1/8 of test year's  
5 operating expenses. A pro forma adjustment is made to working capital to match the pro  
6 forma operating expenses. Another rate base adjustment indicated on Schedule C is to  
7 reflect capital projects that were underway but not yet complete as of the end of the test  
8 year and to recognize plant additions made after September 30, 2005. These Pro Forma  
9 Plant projects are needed to provide customers with safe and reliable sewer service. A  
10 capitalized time adjustment is also included.

11

12 **Q. WHAT RATEMAKING METHODOLOGY DOES THE COMPANY PROPOSE**  
13 **THAT THE COMMISSION EMPLOY IN THIS CASE?**

14 **A.** The Company proposes that its rates be determined utilizing the rate of return on  
15 rate base methodology.

16

17 **Q. IS RATE OF RETURN ON RATE BASE TREATMENT APPROPRIATE FOR**  
18 **THE COMPANY?**

19 **A.** Absolutely. The Company has a large rate base and needs to earn a rate of return  
20 that is sufficient to obtain the necessary equity and debt capital that a larger utility needs  
21 for sound operation.

22

1   **Q.    MRS. SUNARDIO, DOES THE COMPANY SEEK TO INCLUDE ANY**  
2       **PAYMENTS TO AFFILIATED ENTITIES?**

3   **A.**Yes. Included in the Company's test year expenses and included in capital  
4       expenditures are payments to Bio-Tech, Inc. Bio-Tech is a South Carolina corporation  
5       which, like UUC, is a wholly-owned subsidiary of Utilities, Inc. Bio-Tech's business  
6       focuses on two primary services, one of which is sludge hauling and disposal and the  
7       other being wastewater plant maintenance, repair and construction. The Company uses  
8       both of these services, although the sludge hauling and disposal service comprises the  
9       majority of our payments to Bio-Tech. The sludge disposal portion of Bio-Tech's  
10      business is regulated by DHEC, which has issued a land application permit for Bio-  
11      Tech's disposal site on Old State Road in Lexington County.

12  
13   **Q.    DOES BIO-TECH PROVIDE SERVICES ONLY TO THE COMPANY AND**  
14       **OTHER WHOLLY-OWNED SUBSIDIARIES OF UTILITIES, INC.?**

15   **A.**No. Bio-Tech also serves other public utilities and governmentally owned  
16       utilities such as municipalities, counties, special purpose districts and public service  
17       districts.

18  
19   **Q.    HOW ARE BIO-TECH'S CHARGES FOR SERVICES TO THE COMPANY**  
20       **DETERMINED?**

21   **A.**Bio-Tech charges the Company the same rates it charges to any other similarly  
22       situated customer. The per mile rate and disposal charges paid by UUC is the same as it

1 is for any other customer, whether it is affiliated with the Company or not. Bio-Tech's  
2 charges for wastewater plant maintenance, repair and construction are the same for all of  
3 its customers, both affiliated and unaffiliated.  
4

5 **Q. WERE THERE ANY BIO-TECH EXPENSES INCLUDED IN THE COMPANY'S**  
6 **LAST RATE PROCEEDING?**

7 **A.** Yes. The rates set in the Company's last rate case included expenditures paid to  
8 Bio-Tech. This was also true for another Utilities, Inc. operating subsidiary in South  
9 Carolina, Carolina Water Service, Inc., which has previously received rate relief.  
10

11 **Q. WOULD NOT THE EXPENSES ASSOCIATED WITH THE SERVICES**  
12 **PROVIDED TO THE COMPANY BY WATER SERVICE CORPORATION**  
13 **ALSO CONSTITUTE AFFILIATE PAYMENTS?**

14 **A.** No, they would not because there are no payments involved, only expense  
15 allocations. As the Commission knows from the nearly thirty years worth of rate cases it  
16 has considered involving the Company and other affiliates of Utilities, Inc., Water  
17 Service Corporation, or WSC, is a wholly owned subsidiary of Utilities, Inc. that  
18 provides management services to UUC and other operating subsidiaries in the sixteen  
19 states where Utilities, Inc. has operations. WSC is captive in the sense that its services,  
20 which include management, payroll, tax, accounting, procurement services, are only  
21 provided to subsidiaries of Utilities, Inc. As the Commission's decisions through the  
22 years accepting this arrangement reflect, it is cost efficient since it avoids duplication of

1           these services and functions for each operating subsidiary. This conclusion is tested in  
2           each rate case by an audit of the allocations and the records of WSC.

3

4   **Q.     DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

5   **A.     Yes, it does.**



**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2006-107-W/S**

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IN RE: )  
)  
Application of United Utility Companies, )  
Inc. for adjustment of rates and charges )  
and modifications to certain terms )  
and conditions for the provision of )  
water and sewer service. )  
\_\_\_\_\_ )

**DIRECT TESTIMONY**  
**OF**  
**BRUCE T. HAAS**

1

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

3 **A.** My name is Bruce T. Haas, and my business address is 110 Queen Parkway, West  
4 Columbia, South Carolina 29169.

5

6 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 **A.** I am Regional Director of Operations for United Utility Companies, Inc. for South  
8 Carolina and for six other operating subsidiaries of Utilities, Inc., four of which are in South  
9 Carolina and two of which are in Georgia.

10

11 **Q. HOW LONG HAVE YOU BEEN EMPLOYED IN THE WATER AND SEWER**  
12 **UTILITY INDUSTRY?**

13 **A.** Approximately 28 years.

14

15 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

1     **A.**           I first began my employment as a meter reader and maintenance worker in 1978  
2     by Lake Holiday Utilities, Corp., which is also a subsidiary of the Company's parent,  
3     Utilities, Inc. During the next several years, I was promoted to Operator and Operating  
4     Manager positions for a number of Utilities, Inc. subsidiary systems, while earning  
5     various water and wastewater licenses in Illinois and Ohio, including the highest levels of  
6     water treatment and wastewater treatment licenses from the Illinois EPA. I eventually  
7     became the Area Manager for the Peoria, Illinois region, overseeing the water and  
8     wastewater facilities in this area. In 1989, I transferred to Charlotte, North Carolina  
9     where I accepted the position of Area Manager for several areas for Carolina Water  
10    Service of North Carolina, Inc., a sister subsidiary of the Company, a job I also  
11    performed for the Company which involved operations of the River Hills and Tega Cay  
12    Systems in York County, South Carolina. I was eventually promoted to Regional  
13    Manager while in Charlotte. During this time I also obtained various water and  
14    wastewater licenses in Water Treatment, Water Distribution, Wastewater Collection, and  
15    Backflow/Cross-Connection certifications from the State of North Carolina and took  
16    night courses towards a degree in Civil Engineering Technology. I also hold the highest  
17    levels of water and wastewater certifications for Water Treatment, Water Distribution,  
18    Wastewater Treatment and Wastewater Collection from the State of South Carolina. In  
19    2002, I was promoted to my current position and given responsibility for the Company's  
20    systems in South Carolina, along with two subsidiary companies located in Georgia.  
21    However, the majority of my time is spent working on issues pertaining to the  
22    Company's South Carolina systems.

1    **Q.    WHAT ARE YOUR DUTIES WITH UNITED UTILITY COMPANIES, INC.?**

2    **A.**            I am responsible for making sure our customers receive the best possible service.  
3            As such, I am responsible for all operating personnel, facilities, maintenance and capital  
4            projects. In addition, I am responsible for communications with state and federal  
5            regulators, including state utility commissions and environmental authorities as well as  
6            other operational issues.

7  
8    **Q.    WOULD YOU DESCRIBE YOUR EXPERIENCE IN WORKING WITH OR**  
9            **TESTIFYING BEFORE STATE UTILITY COMMISSIONS REGARDING RATE**  
10           **CASES?**

11   **A.**            Yes. I have testified before the commissions in North Carolina and South  
12            Carolina, along with working with staff of the Illinois Commerce Commission during my  
13            tenure with the Company.

14  
15   **Q.    WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING,**  
16           **MR. HAAS?**

17   **A.**            The purpose of my testimony is to provide the Commission with a brief overview  
18            of our South Carolina operations and our continued efforts to provide our customers with  
19            the best possible water and sewer utility service and to support the portion of the  
20            Company's application for modification of certain of the terms and conditions pertaining  
21            to water service.

22

1    **Q.    MR. HAAS, WOULD YOU BRIEFLY DESCRIBE THE COMPANY’S WATER**  
2           **AND SEWER OPERATIONS HERE IN SOUTH CAROLINA?**

3    **A.**            Yes. United Utility Companies, Inc. currently serves over 90 water customers  
4           and over 1800 wastewater customers located in eight counties across the state. We deliver  
5           safe and reliable water service to our customer’s homes by way of deep drilled wells. We  
6           also provide sewer service through our wastewater collection, transportation and  
7           treatment facilities as well as collection-only service collection facilities and utilizing  
8           wholesale wastewater treatment providers.

9

10   **Q.    WITHIN THE COMPANY, WHO IS RESPONSIBLE FOR ENSURING THAT**  
11           **CUSTOMERS ARE RECEIVING THE BEST POSSIBLE SERVICE?**

12   **A.**            I have the overall responsibility for ensuring that our customers receive the best  
13           possible service. In order to discharge this responsibility, I make every effort to see that  
14           the company hires and maintains a highly qualified and professional staff of individuals.  
15           Together, we continue to make customer satisfaction the primary responsibility of each  
16           and every United Utility employee.

17

18   **Q.    WHAT ONGOING PROGRAMS DOES THE COMPANY HAVE IN PLACE TO**  
19           **HELP ENSURE THAT CUSTOMERS RECEIVE QUALITY UTILITY**  
20           **SERVICE?**

21   **A.**            First and foremost, we make certain that our operations personnel are duly  
22           certified by environmental regulatory authorities. We provide training resources in order

1 to increase their knowledge and education in the water and wastewater fields. Many of  
2 our licensed operators hold the highest levels of water and wastewater certifications from  
3 the State of South Carolina and we also employ two (2) registered Professional  
4 Engineers. We also hold periodic staff meetings to specifically address service concerns,  
5 as well as to increase employee sensitivity to customer satisfaction. Topics covered  
6 include service problems we have encountered, steps taken to solve these problems, new  
7 regulations and cost control measures. These regular meetings also serve as an  
8 opportunity to reinforce our customer service philosophy, as well as to keep each of us  
9 focused on what is important – our customers. Continuing education programs are  
10 provided for all employees, including classes routinely conducted by Company staff as  
11 well as outside consultants. Our most valuable resource is our personnel. By keeping up  
12 to date with new methods and changing regulations, we enable them to provide better  
13 service and hold down costs.

14 To ensure that our customers are provided the best possible service we also  
15 employ a capital improvements program, as well as ongoing operational programs such  
16 as routine testing and periodic water main flushing to improve water quality, the use of  
17 sequestering agents to reduce the effects of minerals which may occur naturally in ground  
18 water, the cleaning of between 10%-20% of sewer collection mains each year to  
19 minimize the potential for back-ups, and a 24-hour-a-day, seven-day-a-week on-call  
20 emergency service. These programs also ensure that company-wide facilities are  
21 properly maintained and safety standards met.

1           Communication with our customers and community leaders regarding issues  
2           which may have an impact on the quality or cost of service is also an important aspect of  
3           our business. As increased environmental regulation continues to place upward pressure  
4           on the cost of providing service, it becomes more important for us to inform customers of  
5           the measures we must take to ensure that their drinking water is safe and that their  
6           waterways are protected. Included in these customer communication efforts are  
7           attendance at Property Owners Association (POA) meetings when we are notified,  
8           customer letters, bill inserts and back-of-the-bill messages, the submission of information  
9           to local media outlets, annual Consumer Confidence Reports detailing the Safe Drinking  
10          Water Act compliance, and new customer welcome packets introducing our company and  
11          providing contact information for problems or concerns.

12           In addition, the Company has implemented an automatic message delivery system  
13          whereby we are able to provide specific information to customers in a particular  
14          geographic area or subdivision, advising them of upgrades or repairs being done to their  
15          system. We are also able to notify customers in advance of scheduled repairs, along with  
16          boil water advisories following water line repairs, periodic flushing of the water system,  
17          or other updates regarding repairs being made.

1   **Q.    HAS INCREASED FEDERAL REGULATION OF THE WATER AND**  
2       **WASTEWATER UTILITIES CONTINUED TO HAVE AN IMPACT ON THE**  
3       **COMPANY?**

4   **A.**        Absolutely, yes. The Safe Drinking Water Act, or SDWA and the Clean Water  
5       Act, or CWA have changed the way in which water and sewer utilities conduct their  
6       business. DHEC implements statutes and regulations adopted by the State of South  
7       Carolina under these federal enactments. Additional costs have been placed upon water  
8       and wastewater utilities to comply with more exacting limits in both areas. While we  
9       have already complied with many of the requirements contained in the reauthorization of  
10      the SDWA, new requirements continue to be promulgated. Likewise, the requirements of  
11      the CWA continue to evolve.

12  
13   **Q.    WHAT IMPACT DOES THIS HAVE ON THE COMPANY'S CUSTOMERS?**

14   **A.**        For one thing, the cost of providing service obviously increases; but, in turn our  
15      customers receive the benefit of greater protection of their waterways and safer drinking  
16      water that is free of harmful contaminants. Our customers also benefit from our  
17      commitment to provide them with safe and reliable utility service which is reinforced by  
18      compliance. Understandably, customers may be unaware of our efforts to meet  
19      regulatory requirements since they do not necessarily see a perceptible change in the  
20      quality of service and therefore, may also be largely unaware of the hidden benefits of  
21      compliance. Without the benefits of compliance, residential development simply cannot

1 be sustained – much less begun. And, of course, these benefits accrue to the overall well-  
2 being and value of the communities we serve.

3  
4 **Q. MR. HAAS, YOU ALSO STATED THAT A PURPOSE OF YOUR TESTIMONY**  
5 **IS TO SUPPORT THE COMPANY’S REQUEST FOR MODIFICATION OF**  
6 **CERTAIN TERMS AND CONDITIONS PERTAINING TO THE PROVISION OF**  
7 **THE COMPANY’S SERVICES; WOULD YOU PLEASE DESCRIBE THESE**  
8 **MODIFICATIONS?**

9 **A.** Certainly. The first modification is to the rate schedule provisions pertaining to  
10 service provided to rental units and is set out at page two of the water schedule and page  
11 five of the sewer schedule. Since the Company’s last rate case in 2000, the legislature  
12 has enacted a statute restricting the ability of any utility – whether governmental or  
13 investor owned – to require a landlord to be financially responsible for utility service  
14 provided to a tenant. This effectively invalidated the Commission’s long-standing  
15 regulation which permitted this practice. A subsequent amendment to this legislative  
16 enactment permits a utility to require a landlord to be responsible for service provided to  
17 a tenant in a multi-unit building with more than three units which are not separately  
18 metered or connected. This proposed modification is intended to bring the Company’s  
19 rate schedule into line with the current law.

20 The second proposed modification is to the water rate schedule and consists of a  
21 new section six on page three. Regulations promulgated by DHEC under the State Safe  
22 Drinking Water Act require the elimination of cross connections to public water systems



1 which have the potential for contaminating safe drinking water. Typically, a cross  
2 connection in our customer base will consist of a separate water irrigation line which may  
3 or may not be metered. The DHEC regulations prohibit any person from installing,  
4 permitting to be installed or maintaining a cross connection unless there is an approved  
5 backflow prevention device installed between the public water system and the potential  
6 source of contamination. DHEC regulations further require that certain backflow  
7 prevention devices be inspected annually by a DHEC certified tester. The modification to  
8 our rate schedule provides notice to customers that any cross connections must be  
9 addressed by an approved backflow prevention device and that the customer is  
10 responsible for the annual inspection. In the event that a customer does not comply, this  
11 provision would permit the Company to arrange for an inspection and bill the customer  
12 the costs of same without markup. The Company has an obligation under the regulation  
13 to ensure that no unprotected cross connections are in place and customers have an  
14 obligation under the regulation not to install or maintain unprotected cross connections.  
15 This provision insures that unaffected or compliant customers do not bear the cost of  
16 enforcing compliance with this program by other customers.

17  
18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 **A.** Yes.